September 20, 2017

Enterprise Risk Management

Board of Trustees Oversight Discussion

Minnesota State

Key questions for Board discussion

- Do the risks presented accurately reflect Minnesota State's top risks?

- Are the risks appropriately prioritized?

- Does the enterprise risk management (ERM) process align with the board's expectations and allow the board to appropriately manage risk?

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Agenda

- Enterprise Risk Management (ERM) Overview
  - Who is responsible for risk management?
  - ERM process
  - ERM at Minnesota State
  - The role of Internal Audit in ERM
  - Strengths of Minnesota State's ERM process
  - Considerations for the next phases of Minnesota State's ERM process
- Minnesota State's Top ERM Risks

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ERM Overview

ERM overview

- **What is risk?** Issues and uncertainties that impact our ability to realize our mission as articulated in the Strategic Framework

- **What is ERM?**
  - ERM is a structured, organization-wide approach to monitor, identify, assess, and manage issues and uncertainties that threaten fulfillment of our mission
  - ERM is an inherent and critical component of leadership's long-term strategy development and execution, as well as a component of board oversight

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Enterprise risk management overview - continued

"Risk management is at its core a governance and management discipline, not an end but a means to an end, with the end being the accomplishment of the institution's mission.

What is risk management from the board's perspective? Just as good financial management is more than a clean audit opinion, good risk management is more than not getting sued and having adequate insurance in place.

Effective risk management prepares an institution to weather literal and figurative storms and sets the course for accomplishing the institution's strategic plan."

Source: Association of Governing Boards of Universities and Colleges, *Risk Management: An Accountability Guide for University and College Boards*

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Who is responsible for risk management?

- The **chancellor** and the **presidents** of the institutions are responsible for effectively managing risks in order to conserve and manage the assets of each institution to minimize the adverse impacts of risks or losses.

- The assessment and management of risk is **everyone's responsibility** – it occurs at all levels of leadership and management from front-line campus employees to oversight by the board. Every day, leaders and employees across the system make risk-based decisions.

- The ERM effort is led by the **ERM committee** (chancellor, vice chancellors, director of internal audit, chief of staff, and other key cabinet members)

- **Presidents and their leadership teams** lead campus-level ERM efforts.

- The **Board of Trustees** oversees the ERM effort.

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Enterprise risk management process

- Identify and Evaluate Risks
- Prioritize Key Risks
- Develop Risk Responses and Action Plans
- Review Operation of ERM Program
- Report on Operation and Effectiveness of ERM Program
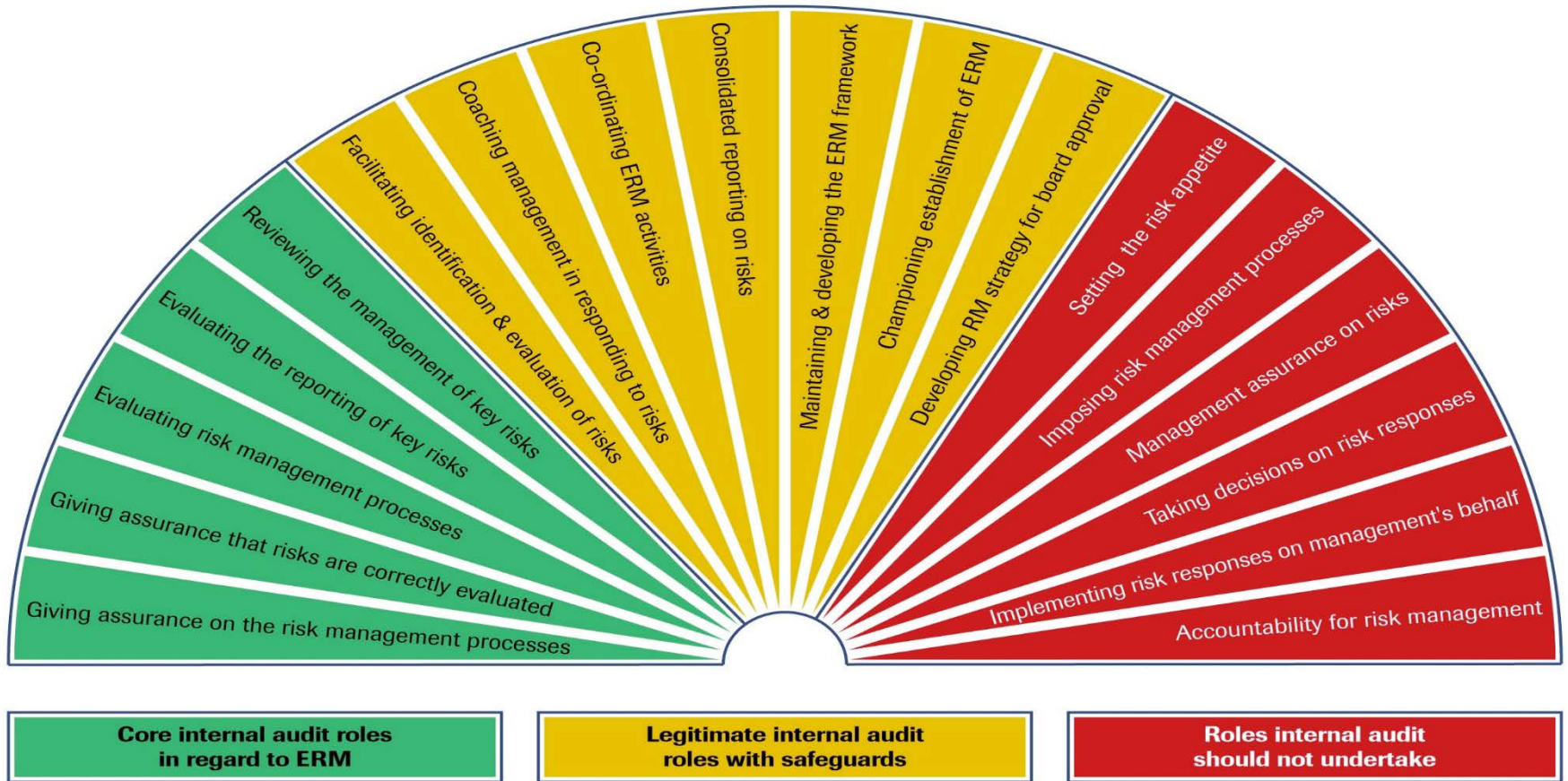- On-going Monitoring of Risks and ERM Program

Chart courtesy of Baker Tilly

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Current ERM process at Minnesota State

- System-level ERM team (with engagement of staff at both the system and college/university level) continuously scan the internal and external environment to identify and assess risks and develop and implement strategies to manage and monitor them

- Annually, presidents have been asked to identify top risks facing their college/university and to describe the strategies they are using to manage those risks

- Risk identification, assessment, and management have been included annual performance reviews and goal setting for the chancellor, presidents, and chancellor's cabinet

- The Leadership Council regularly discusses risks and strategies

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The role of Internal Audit in ERM

Core internal audit roles in regard to ERM
- Giving assurance on the risk management processes
- Giving assurance that risks are correctly evaluated
- Evaluating risk management processes
- Evaluating the reporting of key risks
- Reviewing the management of key risks

Legitimate internal audit roles with safeguards
- Facilitating identification & evaluation of risks
- Coaching management in responding to risks
- Co-ordinating ERM activities
- Consolidated reporting on risks
- Maintaining & developing the ERM framework
- Championing establishment of ERM
- Developing RM strategy for board approval

Roles internal audit should not undertake
- Setting the risk appetite
- Imposing risk management processes
- Management assurance on risks
- Taking decisions on risk responses
- Implementing risk responses on management's behalf
- Accountability for risk management

This diagram is taken from "Position Statement: The Role of Internal Audit in Enterprise-wide Risk Management", reproduced with the permission of the Institute of Internal Auditors – UK and Ireland. For the full Statement visit www.iia.org.uk.

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Strengths of Minnesota State's ERM Process

- A formal ERM process has been established, which includes an ERM Committee

- Risks have been identified and assessed, which appear to be in alignment with the risks that peer institutions face

- Risk mitigation strategies have been identified

- Internal Audit is part of the ERM Committee, and the annual internal audit plan is aligned with the assessed risks

Considerations for the next phases of Minnesota State's ERM Process

- Review and verify System policies around ERM and risk ownership
- Verify the current ERM risk universe
- Establish a common risk language across the System
- Determine an ERM reporting format and cadence
- Establish executive risk owners and risk managers
- Develop metrics to monitor each risk

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Minnesota State's Top ERM Risks

Top systemwide strategic risks

Strategic Risks

Operational Risks

| Academic and Student Affairs | Financial | Human Resources | Technology | Facilities |

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Top strategic risks and key mitigation strategies

Risk	Key Strategies
1. Enrollment challenged by declining number of high school graduates, low unemployment, increased competition, insufficient progress on student retention and successful transfer, as well as ineffective and counterproductive marketing	• Improve curriculum alignment and student transfer • Conduct evidence-based assessment of retention best practices and scale the most efficacious strategies • Assess institutions' ability to use predictive analytics to impact student success • Implement and market the Twin Cities metro baccalaureate plan • Strengthen academic advising and access to student support information; remove policy barriers • Evaluate campus diversity plans; develop campus climate scans; improve recruitment and retention of diverse faculty and staff; provide professional development • Implement a coordinated statewide marketing and recruitment effort **Internal Audit** • **Enrollment initiatives review** – Assess the institutions' initiatives to increase enrollment and evaluate how institutions recruit and retain successful students in relation to leading practices across higher education.

2. Inadequate capacity to embrace disruptive changes and adapt
  a. Fear of change and sense of loss
  b. Difficulty anticipating, responding to, or leading disruptive changes
  c. Student success remains at core of all discussions
  d. Limited capacity and ability to make change
	• Assess what foundational capacities are needed to augment the institutions ability to make progress on student success, diversity/equity/inclusion, and financial sustainability
	• Pilot new innovations
	• Continue to discuss with stakeholders and communicate about the urgent changes and challenges facing higher education and our colleges and universities
	• Increase professional development around change management and leadership
	Internal Audit
	• **Shared services framework review** – Review the current HR-TSM service model to assess the transition, progress to date, and the extent to which the desired project goals and objectives have been achieved. Identify key lessons learned to be applied on future initiatives. Perform an assessment of risks associated with the transition and how to mitigate these risks for future projects.

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Top strategic risks (continued)

Risk	Key Strategies
3. **Need for a sustainable financial model** for our colleges and universities. Incremental revenues are not keeping pace with incremental costs and unlikely to do so without significant changes	• Implementation of Comprehensive Workplace Solutions strategy • Encourage entrepreneurial activities • Develop and implement a long-term financial sustainability plan that identifies significant new sources of revenue and new ways to significantly reduce costs • Continue to monitor performance metrics on costs, revenues, and financial risk to drive accountability • Continue to increase private fundraising • Continue to control tuition and fees and monitor debt • Continue to reduce administrative and institutional costs • Continue to monitor and control instructional costs **Internal Audit** • **Shared services framework review –** Assess the current and planned shared services to provide assurance and confirm criteria for sustainable organizational governance relative to guiding principles and accreditation standards.
4. **Outdated legacy systems** in the face of new technologies for student services, learning, course delivery, and administration	• Move forward on implementation of Next Gen • Develop a more powerful, quality online education strategy • Ensure all students have access to technology • Increase exploration of emerging technologies and professional development • Align student and employee identification practices across the system **Internal Audit** • **NextGen project risk review –** Establish Internal Audit's role in facilitating periodic checkpoints to provide assurance regarding risks of the NextGen project, designed to replace Minnesota State's primary enterprise systems.

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Appendix

Top operational risks: Academic and Student Affairs

Risk	Risk Management Strategy
	See also Strategic Risks; IT Risks; Facilities Risks
• Growing population of students at risk	• Develop and share approaches to support students at risk (e.g., academic progress and support; mental health; etc.) • Leverage technology to improve and target support to students at risk (e.g., implementing systemwide CRM; predictive analytics; etc.) • Support campus-level initiatives by sharing best practices and providing training
• Growing racial tensions and student activism	• Build institutional capacity to appropriately respond • Provide training and other resources • Facilitate the sharing of best practices • Develop system level support
• Relational risk and effective collaboration	• Build institutional capacity to create and maintain effective change and collaboration • Strengthen relations and trust with faculty (statewide and local) • Strengthen relationships and trust with campus ASA leadership and staff; grow enterprise behavior
• Title IV and state financial aid programs	• Board policy • Monitoring, reviews, and training

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Top operational risks: Financial

Risk	Risk Management Strategy
• Enrollment	• Close monitoring and remediation communication with campuses • Expand long-term demographic and economic forecasting • Support student recruitment and increase retention • Increase marketing and communication strategies
• Financial sustainability of colleges and universities	• Financial triggers revised to accelerate early awareness of stress • Multi-year modeling tools for campus use and reporting • Develop long-term strategies for revenue growth (e.g., enrollments, retention, customized training, fundraising) • More effective management of the curriculum • Implement e-procurement system that includes streamline and incorporating best practices to increase efficiency and savings • Grow partnerships and collaborations among colleges and universities; add incentives in allocation framework • Advance shared services and regional service center activities • Facilities rightsizing; program alignment and sharing strategies
• Federal and state financial support for students	• Encourage federal and state investments in students (e.g., state grant program, Pell, Perkins, TRIO)

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Top operational risks: Human Resources

Risk	Risk Management Strategy
• Talent recruitment, retention and development to address the anticipated high turnover in key leadership and staff positions over the next five years	• Continue to refine and advance our comprehensive systemwide Intentional Recruitment and Retention (IRR) model to ensure a strong and diverse workforce • Deploy performance management and succession planning tools effective at identifying and developing high performers within our system • Continue building System-wide HR capacity to deliver effective workforce planning to manage turnover related issues • Continue to prioritize systemwide talent and leadership development programs • Periodically review and modify as necessary our wage and benefit structures to ensure market competitiveness
• Regulatory management (ADA, ACA, FLSA, FMLA, Workers' Comp., etc.)	• Continue to develop System-wide HR compliance capacity, including an auditing function • Continue implementing the systemwide HR transactional service model (HR-TSM)
• Title IX compliance (sexual assault, athletics, etc.)	• Board policy • Designated campus Title IX officers • Provide training, other resources • System supported reporting tools • Periodic reviews

Top operational risks: Technology

Risk	Risk Management Strategy
• Information security and information management	• Create and maintain a robust set of policies and procedures that clearly convey expectations for safeguarding and managing data / information resources • Implement technology risk and control assessments • Operate a security program that aligns with the organization's strategic needs and risk tolerances • Evaluate information technology practices that meet or exceed policy / procedure and adopted technology frameworks • Research and invest in security technologies that can make broad/sweeping changes to the system's information security risk profile
• Poorly aligned / aging solutions that are not sustainable in their current form and/or hamper the organization's ability to act operationally and strategically to meet current and future needs	• Pursue strategies to replace / re-tool core IT infrastructure and applications • Pursue common business practices in advance of technology changes • Actively manage the change associated with technology replacement and business practice adjustment

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Top operational risks: Facilities

Risk	Risk Management Strategy
• Facility and infrastructure reliability	• Advance coordinated capital planning improvements • Partner with state for sufficient financial support • Set and meet repair and replacement goals; investment guidelines • Pursue replacement, mothball, out-lease, and demolition opportunities
• Safe, secure, compliant operations	• Communication, training, education, and auditing • State agency partnerships (e.g., MnOSHA Alliance, State Risk COPE program) • Master contracts / coordinated and consolidated methods • Regional and system collaboration • System office and campus plans • Periodic review, training exercises, and scenarios
• Increasing costs / expenses: energy, supplies and materials, disposal	• Physical plant systems preventative maintenance • Competitive bidding • Strategic sourcing, master contracts • Benchmarking and re-commissioning • B3 standards and reporting • Scheduling and XX standards

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